

**Audit of the Solicitation and Award of the DB2 Conversion Contract
Report No. 06-10, September 26, 2006**

INTRODUCTION

This report represents the results of the Office of the Inspector General's (OIG) audit of the solicitation and award of the DB2 Conversion contract by the Railroad Retirement Board.

BACKGROUND

The DB2 conversion project is currently the major information technology (IT) system initiative for the agency. The RRB previously determined that conversion from a non-relational database to IBM's DB2 relational database would meet future technology needs.

The most significant project costs relate to conversion efforts being conducted by the contractor. Preliminary conversion planning began in late fiscal year (FY) 2002. Detailed planning for conversion and source selection started in FY 2004.

Solicitation information was provided through FedBizOpps.gov (FedBizOpps), a Federal government procurement internet site. Most solicitations in excess of \$25,000 must be publicized on the site. Commercial vendors can search, monitor and retrieve opportunities solicited by the entire Federal contracting community on this site.

Although twenty contractors requested the solicitation information, the RRB received five proposals. Three proposals did not meet the technical requirements and therefore were not included in the competitive range. The two contractors selected for the competitive range submitted final proposals and were considered technically strong. The RRB considered the proposal submitted by Tiburon Technologies, Inc. (Tiburon) to be the best value with a price that was approximately \$1.7 million less than the other contractor's estimate.

The RRB competitively awarded a firm-fixed price contract in the amount of \$2,675,000 to Tiburon on September 9, 2005. The estimated contract completion date is July 2007, with a performance period not to exceed 24 months. The contract has increased to \$2,845,000 based on technical modifications. Associated costs include internal staffing, indirect costs and staff training costs. The internal staffing and indirect costs have not been estimated, but the current utilization of at least six to eight RRB employees over a two year period demonstrates the cost significance. The RRB recently issued a training contract for approximately \$205,000 for agencywide training related to the DB2 conversion.

The conversion of the Railroad Unemployment Insurance Act system is the first major milestone conversion and is expected to occur no later than February 2007. The conversion of the Railroad Retirement Act system is the largest conversion and is expected to occur in the third or fourth quarter of FY 2007.

The Office of Administration's Division of Acquisition Management staff manage the agency's procurement and contracting activities (including solicitations, selection, award, administration

and close-out). The RRB's Chief Information Officer (CIO) ensures the agencywide efficiency and effectiveness of IT resources including oversight, management and approval of all IT procurements. The CIO works closely with the Division of Acquisition Management staff in the procurement phase.

The DB2 conversion project supports the 2003 – 2008 Strategic Plan, Objective II-C: Ensure effectiveness, efficiency, and security of operations. In addition, the DB2 conversion project supports the enterprise architecture initiative included in the 2003 – 2008 Strategic Plan, "to develop and implement enterprise architecture as the foundation for its future information technology projects, initiatives and investments." One of the primary challenges in achieving this initiative is "converting our established databases...to more modern systems."

OBJECTIVE, SCOPE AND METHODOLOGY

The objective of this audit was to determine whether the RRB solicited and awarded the DB2 Conversion contract in accordance with the agency's contracting policies and procedures (Administrative Circular BSS-14, Procurement of Goods and Services and internal flowcharts for acquisitions by formal contract \geq \$100,000) and the Federal Acquisition Regulations (FAR). The scope of this audit included contracting activities from the solicitation through the contract award. To accomplish our objective, we:

- interviewed responsible management and staff;
- evaluated solicitation and contract documentation; and
- assessed the agency's compliance with Administrative Circular BSS-14, Procurement of Goods and Services and the applicable FAR regulations.

This audit was conducted in accordance with generally accepted government auditing standards applicable to the objective. We performed the fieldwork at the RRB headquarters in Chicago, Illinois from July through August 2006.

RESULTS OF AUDIT

The RRB solicited and awarded the DB2 Conversion contract in accordance with most of the agency's contracting policies and procedures and applicable FAR regulations. The RRB awarded the contract under full and open competition, selecting the contractor who was the best value for the RRB. The RRB conducted the following significant responsible actions during this procurement:

- conducted extensive acquisition planning,
- answered questions by potential bidders in a timely manner,
- thoroughly analyzed technical aspects for the competitive range determination and the determination and finding,
- evaluated proposals based on factors included in the Request for Proposal (RFP) and accurately calculated contractor scores,
- informed contractors not included in competitive range in a timely manner,

- attempted to obtain a more reasonable price from the competing bidder,
- offered and conducted a post award briefing,
- reviewed the legal sufficiency of the solicitation and the contract award, and
- awarded a firm fixed price type contract and selected the appropriate clauses.

Our review of the contractor's financial statements indicated that the selected contractor may have been experiencing financial problems. Acquisition Management staff should have conducted additional analysis of the contractor's financial responsibility to protect the RRB. Based on this and three other findings, the Office of Administration should strengthen contracting policies and procedures to ensure future major procurements fully comply with FAR regulations.

Details of our findings and recommendations are presented below.

PROSPECTIVE CONTRACTOR RESPONSIBILITY

Acquisition Management staff did not conduct a sufficient financial responsibility analysis of the selected contractor even though there were financial distress indicators. In addition, the RRB did not identify a significant error in financial statement data provided by the contractor. Financial problems of a contractor could result in delays and/or nonperformance.

FAR Subpart 9.1 requires that purchases and contracts shall be awarded to responsible contractors. RRB must determine if the contractor is a responsible contractor and an evaluation of the contractor's financial responsibility is part of this requirement. FAR Subpart 9.104 requires that the contractor have adequate financial resources to perform the contract. Administrative Circular BSS-14 does not address contractor responsibility actions. However, internal flowcharts do require a responsibility determination.

The RFP did request audited financial statements for the last three years but the contractor indicated it had unaudited financial statements. Acquisition Management staff did not subsequently request the unaudited financial statements. They should have obtained these statements. Acquisition Management staff did request that the contractor complete General Services Administration Form 527 which includes financial and company background information. Form 527 includes information which may not be disclosed in financial statements such as loans, lines of credit, or pledged assets. The selected contractor provided financial information for an eight month period ended June 30, 2005. The balance sheet information on Form 527 included a significant error. Specifically, liabilities and stockholders' equity significantly exceeded total assets. Assets should equal liabilities plus stockholders' equity. Acquisition Management staff were not aware of this balance sheet error.

The balance sheet also had a negative cash balance of approximately \$25,000. A negative cash balance is an indicator of possible financial distress. In addition, the contractor's current ratio (current assets to current liabilities) was approximately .4 to 1. A ratio lower than 1 to 1 indicates that the contractor may have problems paying short-term obligations. There is no written evidence that Acquisition Management staff inquired about the reason(s) for the negative cash balance or its duration.

Acquisition Management staff did obtain a letter of credit from the selected contractor which indicated that the contractor had a line of credit commitment of \$750,000. The June 30, 2005 balance sheet indicated that approximately \$246,000 had been loaned. The lender providing the credit commitment specializes in short term loans to companies unable to arrange conventional financing.

Acquisition Management staff indicated that they also queried Dun and Bradstreet information. Dun and Bradstreet information contains corporate background, financial statement, payment history and other relevant data. Based on their analysis, Acquisition Management concluded that the selected contractor was fiscally sound.

Acquisition Management should continue the practice of using financial and general information from Form 527 and continue to obtain Dun and Bradstreet information. However, follow-up actions regarding the contractor's negative cash position, its ability to pay short-term obligations, and the balance sheet error were also needed.

Recommendation

We recommend that the Office of Administration establish a policy and procedure to ensure financial responsibility is sufficiently evaluated when determining a prospective contractor's responsibility for major procurement actions such as those in excess of \$500,000. This policy should provide for financial responsibility analysis by an experienced auditor or accountant. The policy should also provide that the auditor or accountant follow-up with the prospective contractor if there are financial distress indicators and conduct further analysis such as obtaining and reviewing cash flow forecasts. (Recommendation #1)

Management's Response

The Office of Administration concurs with the recommendation and will include procedures for financial responsibility review into Administrative Circular BSS-14 by November 30, 2006. Copies of the Office of Administration's responses are included in Appendix 1 and 2 to this report.

ACCURACY OF CONTRACTING DOCUMENTS

The Determination and Finding/Determination of Award (D&F) included incorrect FAR citations. The D&F incorrectly references FAR Part 14, a Sealed Bidding Subpart. This solicitation was a competitive proposal procurement and not a sealed bid procurement. The D&F also included an incorrect FAR Part 15 reference. The D&F appropriately cited other FAR citations. The errors in the D&F indicate Acquisition Management does not have an effective internal review process.

FAR Subpart 1.7 requires the citation of the appropriate statute and/or regulation upon which the D&F is based. The D&F document is open to public scrutiny and it is possible that a rejected contractor could delay or disrupt an award based on inaccurate citations in the D&F.

Recommendation

We recommend that the Office of Administration ensure that the D&F document include the appropriate FAR citations in accordance with FAR Subpart 1.7. (Recommendation #2)

Management's Response

The Office of Administration concurs with the recommendation and will conduct supplemental training to procurement staff by December 31, 2006. Copies of the Office of Administration's responses are included in Appendix 1 and 2 to this report.

PUBLICATION OF SOLICITATION

Acquisition Management staff did not publicize completely accurate solicitation data on FedBizOpps. FedBizOpps included some errors relating to the solicitation. For example, Solicitation of Order, SF 1449, was blank when posted on May 2, 2005. Another SF 1449 was posted on June 2, 2005, but it included an erroneous offer due date of May 24, 2005. The offer due date at that time had been extended to June 7, 2005, as indicated in the synopsis section of FedBizOpps.

Most solicitations in excess of \$25,000 must be publicized on FedBizOpps as required by FAR Subpart 5.1 and Administrative Circular BSS-14. Publication of inaccurate information could hinder timely submission of proposals. Acquisition Management staff did not check to ensure the accuracy of the posted information.

Recommendation

We recommend that the Office of Administration establish a procedure to ensure that solicitation data posted on FedBizOpps is current, accurate, and complete. (Recommendation #3)

Management's Response

The Office of Administration concurs with the recommendation and will conduct supplemental training on posting solicitation documents to FedBizOpps by October 30, 2006. Copies of the Office of Administration's responses are included in Appendix 1 and 2 to this report.

SOLICITATION AMENDMENTS

The solicitation amendments posted on FedBizOpps were approved verbally, not in writing by a Supervisory Contract Specialist. Amendment of Solicitation, SF 30, does not require a Contracting Officer's signature. In addition, the Division of Acquisition Management does not have a policy and procedure which requires written authorization of solicitation amendments by a Supervisory Contract Specialist.

Because solicitations are authorized by a responsible contracting official, it is reasonable to expect solicitation amendments to also be approved in writing. Although this weakness did not negatively affect this procurement, there is no control to ensure unauthorized solicitation amendments will not be posted.

Recommendation

We recommend that the Office of Administration establish a policy and procedure which requires written authorization of solicitation amendments by a Supervisory Contract Specialist prior to posting a solicitation amendment on FedBizOpps. (Recommendation #4)

Management's Response

The Office of Administration concurs with the recommendation and will include procedures for review and approval of solicitation documents, including amendments into Administrative Circular BSS-14 by November 30, 2006. Copies of the Office of Administration's responses are included in Appendix 1 and 2 to this report.



UNITED STATES GOVERNMENT

MEMORANDUM

FORM G-115f (1-92)

RAILROAD RETIREMENT BOARD

September 18, 2006

TO : Henrietta B. Shaw
Assistant Inspector General for Audit

FROM : Henry M. Valiulis
Director of Administration

SUBJECT: Draft Report – Audit of the Solicitation and Award
of the DB2 Conversion Contract

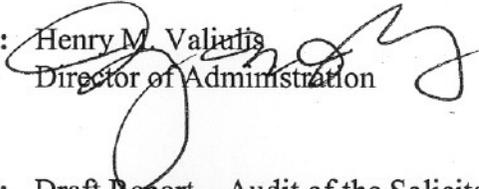
Thank you for the opportunity to review and comment on the above-named draft report, which you transmitted via memorandum dated September 11, 2006. We agree with the content of the report, and will take action to address the four recommendations. We undertook a rigorous process to select the contractor which represented the best value to the agency and the federal government on this key project. However, while we believe that we were successful in this effort, the report identifies some relatively straightforward improvements that will enhance this process on similar types of procurements in the future. Both I and my staff appreciated the opportunity to work with your staff on this important subject.

cc: Chief Information Officer
Chief of Acquisition Management

UNITED STATES GOVERNMENT
MEMORANDUM

September 25, 2006

TO : Henrietta B. Shaw
Assistant Inspector General for Audit

FROM : 
Henry M. Valiulis
Director of Administration

SUBJECT: Draft Report – Audit of the Solicitation and Award
of the DB2 Conversion Contract

This is a follow up to my memo of September 18, 2006 providing comments on the subject draft report.

The target dates for the recommended corrective actions are as follows:

Recommendation No. 1 - Appropriate references will be included into Administrative Circular BSS-14 by November 30, 2006.

Recommendation No. 2 - Supplemental training to the Procurement staff will be provided by December 31, 2006.

Recommendation No. 3 - Acquisition Management will conduct supplemental training on posting solicitation documents to the FedBizOpps site by October 30, 2006.

Recommendation No. 4 - Acquisition Management will include procedures for review and approval of solicitation documents, including amendments into Administrative Circular BSS-14 by November 30, 2006.

cc: Chief Information Officer
Chief of Acquisition Management